



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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September 12, 1985

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Fourth District, Pasadena

KENNETH CORY  
Controller, Sacramento

DOUGLAS D. BELL  
Executive Secretary

No. 85/96

TO INTERESTED PARTIES:

RULE NO. 2  
THE VALUE CONCEPT

Following a scheduled public hearing on October 9, 1984, the Board of Equalization adopted amendments to Rule 2, The Value Concept. The amendments are effective as of September 20, 1985.

Enclosed for your information is a final printed copy of the rule.

Sincerely,

*Douglas D. Bell*

Douglas D. Bell  
Executive Secretary

DDB:jt

Enclosures

State of California  
BOARD OF EQUALIZATION  
PROPERTY TAX RULES

Chapter 1. State Board of Equalization — Property Tax  
Subchapter 1. Valuation Principles and Procedures

**Rule 1. GENERAL APPLICATION**

References: Sections 110, 401, Revenue and Taxation Code.  
Article 2, Chapter 3, Part 2, Division 1, Revenue and Taxation Code.

The rules in this subchapter govern assessors when assessing, county boards of equalization and assessment appeals boards when equalizing, and the State Board of Equalization, including all divisions of the property tax department.

History: Adopted June 21, 1967, effective July 23, 1967  
Amended July 27, 1982, effective December 30, 1982.

**Rule 2. THE VALUE CONCEPT**

References: Sections 110, 110.1, 401, Revenue and Taxation Code.  
Article XIII, Section 1 and Article XIII A, Sections 1 and 2 California Constitution.

In addition to the meaning ascribed to them in the Revenue and Taxation Code, the words "full value," "full cash value," "cash value," "actual value," and "fair market value" mean the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other. The "full value," "full cash value," "cash value," "actual value," and "fair market value" of real property being appraised upon a purchase or other transfer constituting a change in ownership as defined in Section 60 et seq. of the Revenue and Taxation Code shall be the purchase price paid in such transaction unless there is substantial and convincing evidence that the real property would not have transferred for such purchase price in an open market transaction. The purchase price shall, however, be rebuttably presumed to be the "full value," "full cash value," "cash value," "actual value," or "fair market value" if the terms of the transaction were negotiated at arms length between a knowledgeable transferor and transferee neither of which could take advantage of the exigencies of the other. "Purchase price" as used in this section is the total consideration provided by the purchaser or on his behalf, valued in money, whether paid in money or otherwise. If a single transaction results in a change in ownership of more than one parcel of real property, the purchase price shall be allocated among those parcels and other assets, if any, transferred based on the relative fair market value of each.

History: Adopted June 21, 1967, effective July 23, 1967.  
Amended December 17, 1975, effective January 25, 1976.  
Amended October 9, 1984, effective September 20, 1985.

### **Rule 3. VALUE APPROACHES**

References: Sections 110, 401, 1816, 1816.1, 1816.2, Revenue and Taxation Code.  
Article 2, Chapter 3, Part 2, Division 1, Revenue and Taxation Code.

In estimating value as defined in section 2, the assessor shall consider one or more of the following, as may be appropriate for the property being appraised:

- (a) The price or prices of which the property and comparable properties have recently sold (the comparative sales approach).
- (b) The prices at which fractional interests in the property or comparable properties have recently sold, and the extent to which such prices would have been increased had there been no prior claims on the assets (the stock and debt approach).
- (c) The cost of replacing reproducible property with new property of similar utility, or of reproducing the property at its present site and at present price levels, less the extent to which the value has been reduced by depreciation, including both physical deterioration and obsolescence (the replacement or reproduction cost approach).
- (d) If the income from the property is regulated by law and the regulatory agency uses historical cost or historical cost less depreciation as a rate base, the amount invested in the property or the amount invested less depreciation computed by the method employed by the regulatory agency (the historical cost approach).
- (e) The amount that investors would be willing to pay for the right to receive the income that the property would be expected to yield, with the risks attendant upon its receipt (the income approach).

History: Adopted June 21, 1967, effective July 23, 1967.

### **Rule 4. THE COMPARATIVE SALES APPROACH TO VALUE**

References: Sections 110, 110.1, 110.5, 401, Revenue and Taxation Code.  
Article XIII A, Sections 1, 2, California Constitution.

When reliable market data are available with respect to a given real property, the preferred method of valuation is by reference to sales prices. In using sales prices of the appraisal subject or of comparable properties to value a property, the assessor shall:

- (a) Convert a noncash sale price to its cash equivalent by estimating the value in cash of any tangible or intangible property other than cash which the seller accepted in full or partial payment for the subject property and adding it to the cash portion of the sale price and by deducting from the nominal sale price and amount which the seller paid in lieu of interest to a lender who supplied the grantee with part or all of the purchase money.
- (b) When appraising an unencumbered-fee interest, (1) convert the sale price of a property encumbered with a debt to which the property remained subject to its unencumbered-fee price equivalent by adding to the sale price of the seller's equity the price for which it is estimated that such debt could have been sold under value-indicative conditions at the time the sale price was negotiated and (2) convert the sale price of a property encumbered with a lease to which the property remained subject to its unencumbered-fee price equivalent by deducting from the sale price of the seller's equity the amount by which it is estimated that the lease enhanced that price or adding to the price of the seller's equity the amount by which it is estimated that the lease depressed that price.
- (c) Convert a sale to the valuation date of the subject property by adjusting it for any change in price level of this type of property that has occurred between the time the sale price was negotiated and the valuation date of the subject property.

**Rule 4. THE COMPARATIVE SALES APPROACH TO VALUE (Continued)**

(d) Make such allowances as he deems appropriate for differences between a comparable property at the time of sale and the subject property on the valuation date, in physical attributes of the properties, location of the properties, legally enforceable restrictions on the properties' use, and the income and amenities which the properties are expected to produce. When the appraisal subject is land and the comparable property is land of smaller dimensions, and it is assumed that the subject property would be divided into comparable smaller parcels by a purchaser, the assessor shall allow for the cost of subdivision, for the area required for streets and alleys, for selling expenses, for normal profit, and for interest charges during the period over which it is anticipated that the smaller properties will be marketed.

History Adopted June 21, 1967, effective July 23, 1967  
Amended July 27, 1982, effective December 30, 1982.